

Financial Hardship Among Student Borrowers

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Student Loan
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Question

As part of its ongoing rulemaking on relieving burdens associated with student debt, the Department of Education asked

“What are potential types of hardship that borrowers may continue to face [in spite of existing Income-Driven Repayment and cancellation policies] and how might the Department address those cases of hardship?”

To answer this question, we analyzed student borrower credit reports from the 2% national sample of the University of California Consumer Credit Panel to see how variation in student indebtedness corresponds to six measures of hardship:

- Credit Score (-)
- Homeownership (-)
- Credit Utilization (+)
- Severe Delinquency (+)
- Adverse Legal Proceedings (+)
- Auto Loan Amortization (-)

We have two policy recommendations:

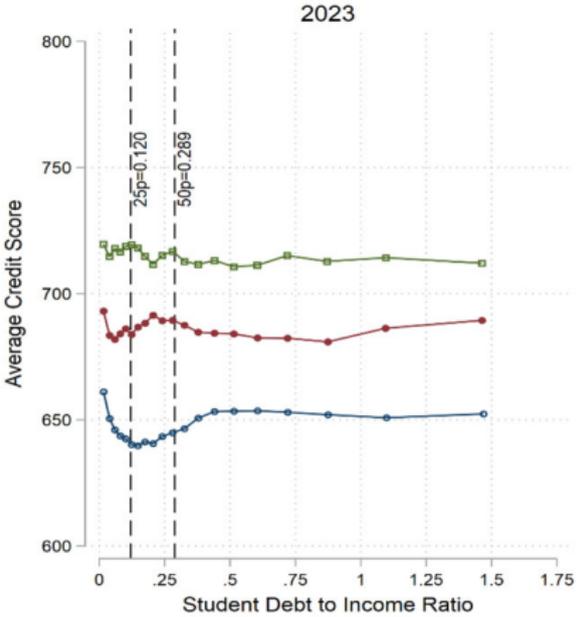
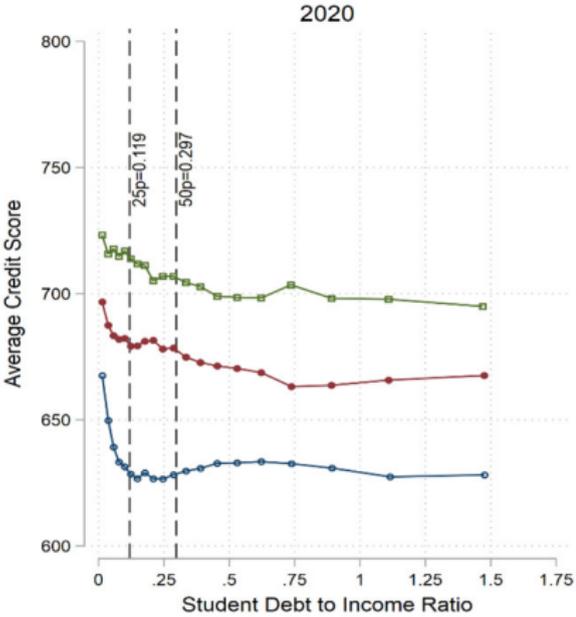
- 1 Reduce student debt to zero for borrowers in the bottom half of the income distribution of student borrowers, corresponding to household incomes below \$71,000.
- 2 Reduce student-debt-to-income ratios to at most 30% for borrowers between the median and the 90th percentile of the income distribution of student borrowers, corresponding to household incomes between \$71,000 and \$131,500.

Summary Statistics for the Analysis Sample

	2020Q1	2023Q2
Number of Borrowers	572,455	824,480
Median Income (in 2021 \$)	\$70,235	\$71,860
Median Student Loan Balance (\$)	\$20,377	\$20,330
Median student-debt-to-income ratio	0.297	0.289

Income Quantile	2020Q1		2023Q2	
	Mean	Upper limit	Mean	Upper limit
Bottom 50p	\$48,017	\$70,235	\$49,072	\$71,860
Next 40p	\$94,291	\$131,591	\$95,584	\$131,731
Top 10p	\$162,944	\$250,000	\$162,392	\$250,000

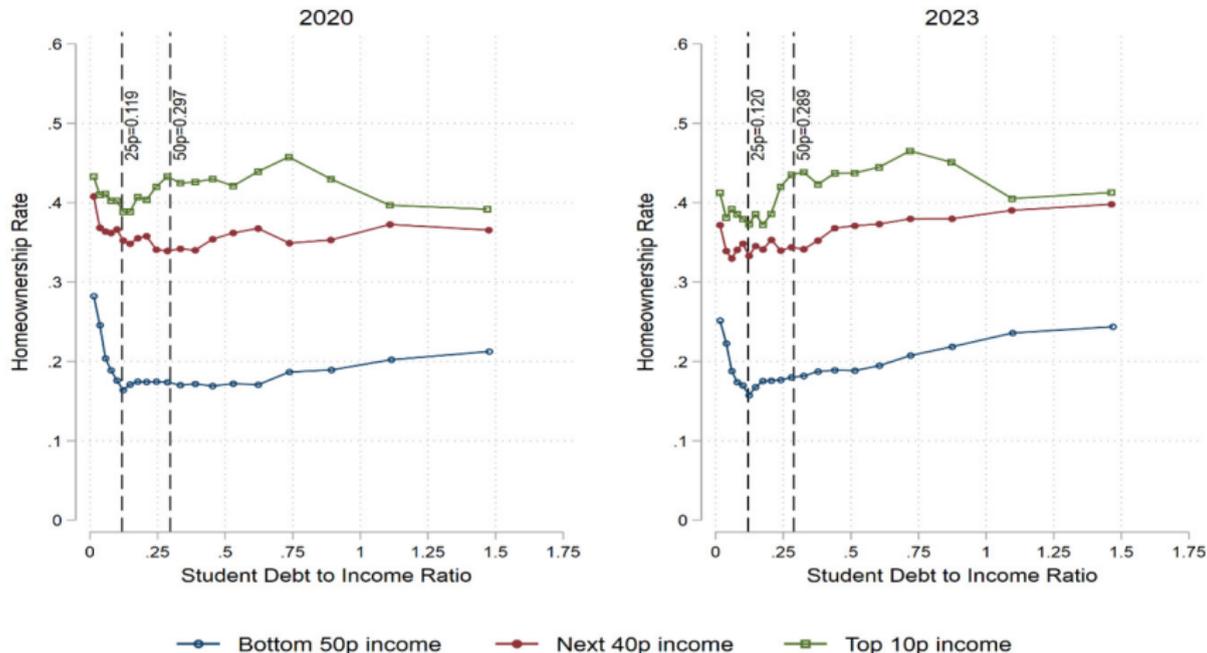
Credit Score



—○— Bottom 50p income
 —●— Next 40p income
 —□— Top 10p income

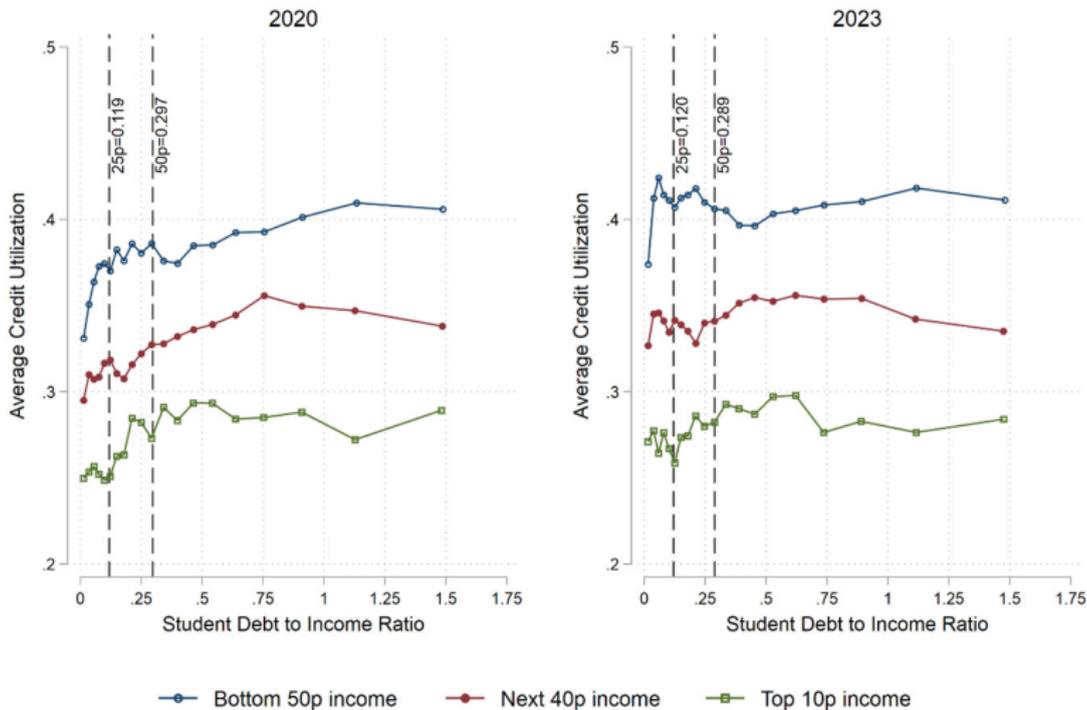
Homeownership

Definition: borrower observed to have a mortgage loan outstanding.



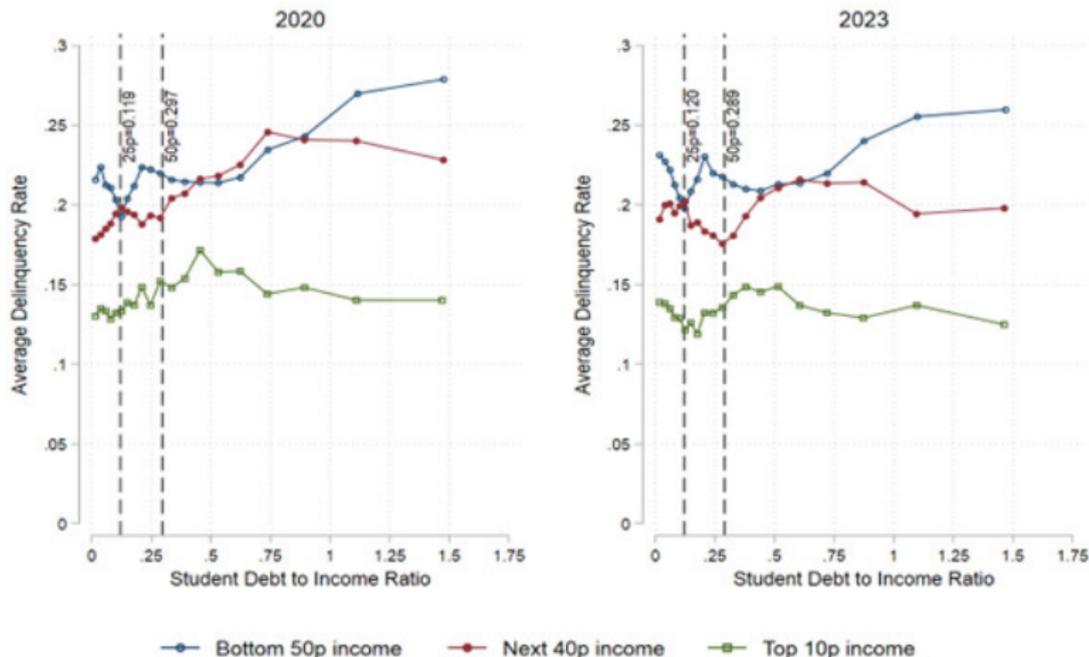
Credit Utilization

Definition: total outstanding balance on unsecured loans, as a share of total credit limit on unsecured loans.



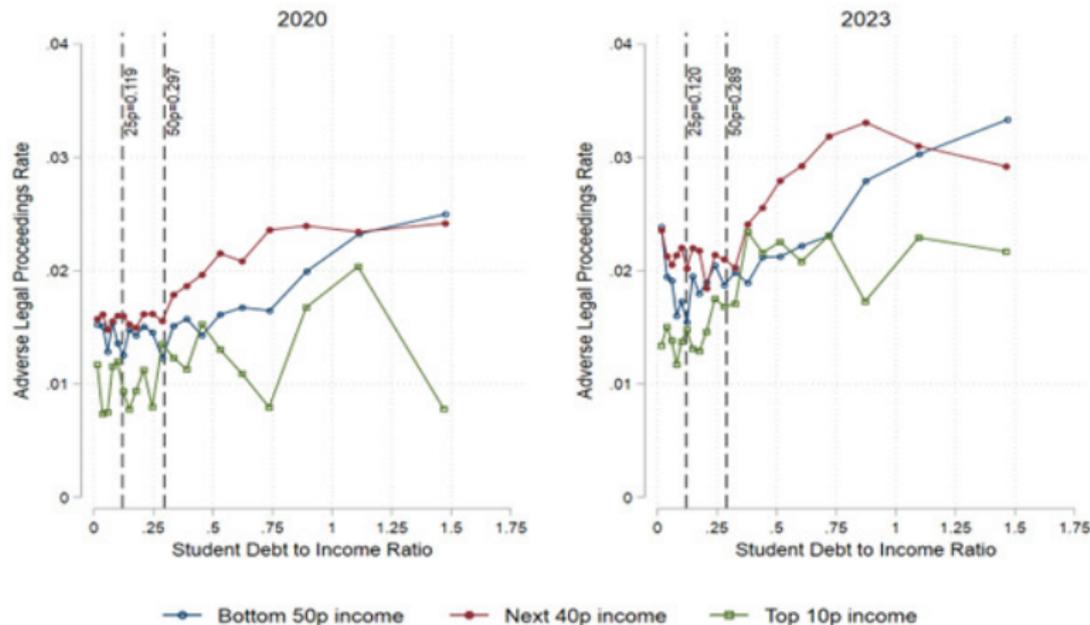
Severe Delinquency

Definition: borrower observed to have at least one loan with payment 90+ days past due.



Adverse Legal Proceedings

Definition: whether a borrower has a 'public record' (bankruptcy, foreclosure, alimony, small claims) filed in the previous three years.



Auto Loan Amortization

Definition: total outstanding balance on auto loans, as a share of original loan amount

